

# **CHAPTER 5**

# **DEPRECIATION**

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## **CHAPTER 5 - DEPRECIATION**

**5-1. PURPOSE.** This chapter provides procedures for the depreciation of real and personal property assets and the maintenance of related depreciation records in the FA module, which was designed to calculate depreciation on a monthly basis as an integrated part of the Oracle Financial Suite.

a. DELPHI will automatically post the depreciation expense and accumulated depreciation in the GL module, as well as detail asset records.

b. DELPHI uses the “date in service” field to begin the calculation of depreciation and will go back and compute catch up depreciation, if the asset was not capitalized in a timely manner.

**5-2. RESPONSIBILITIES.** The computation of depreciation is a financial management responsibility. AFM-320, will:

a. Develop, maintain, and revise, as needed, policies and procedures for real and personal property depreciation.

b. Monitor the depreciation process and answer all questions relative to the calculation and availability of depreciation data.

c. Administer the FA module’s depreciation functions centrally from FAA headquarters.

**5-3. DEPRECIATION CRITERIA.**

a. Depreciation is computed using the straight-line method for all real and personal property assets that meet capitalization criteria.

Depreciation will be computed monthly. DELPHI begins depreciating assets the month following the date they are placed in service.<sup>1</sup>

b. Depreciation expense is calculated and recorded retroactively for all periods that have lapsed due to delay or backlog in capitalization. It is important to note that delays in capitalizing CIP assets will result in understatements of monthly depreciation expense and understatement of accumulated depreciation. When the catch up depreciation expense is recorded, the resultant effect will cause spikes in the measurement of FAA facility operating cost that is calculated through CAS. As part of annual year end closing instructions, AFM-320 will designate a cutoff date for capitalizing new assets and recording in them DELPHI.

c. No residual values will be recognized for FAA property assets. Fully depreciated property will remain on the books, even though its net book value is zero. Net book value is defined as cost less accumulated depreciation. After the expiration of the asset's useful life, the asset will remain in the FA module. If an asset is not in use and it has been transferred to the "Not In Use" account, then the accumulated depreciation will transfer to the appropriate "Accumulated Depreciation Not In Use" account. After the FAA no longer needs an asset, it will normally transfer the asset to other government agencies, such as the United States Coast Guard, to aid in their missions, or donate or scrap the asset. Whenever this happens, the FA module computes gains and losses on disposition. When assets are sold, the difference between the net book value and the proceeds received is posted by the FA module to either the 7110 series of general ledger accounts for gains or the 7210 series of general ledger accounts for losses.

1. For real property, buildings or other assets that are not in use are transferred to GL account # 17306010, "Buildings Not In Use," or GL account # 17406010, "Other Structures and Facilities Not In Use."

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<sup>1</sup> Land is not depreciated.

2. For personal property, assets are transferred from the original asset's general ledger account to GL account # 17506010, "Equipment Not in Use."

#### 5-4. USEFUL LIFE.

a. The following standards are used for real property in determining the useful life of the asset for the purpose of calculating depreciation:

| Useful Life Asset Classification (G/L) Account   | Years           |
|--|-----------------|
| Office Buildings, Warehouse Buildings (Including Commercial and Government), Residential Properties, Air Traffic Control Towers, and En Route Air Traffic Control Centers, Communication Equipment Buildings | 40              |
| Mobile Homes, Chillers (on case by case basis)   | 20              |
| Capital Improvements, Facility Modifications, Leasehold Improvements (or expiration of lease, whichever comes first)   | 10 <sup>1</sup> |
| Original Roads, Sidewalks, Parking Lots, and All Other Structures  | 15              |

b. The following standards are used for personal property in determining the useful life of the asset for the purpose of calculating depreciation:

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<sup>1</sup> Capitalized improvements depreciate over the remaining useful life of the parent asset or for 10 years if the parent real property asset is fully depreciated and for 3 years if the parent personal property asset is fully depreciated..

| <b>PPIMS<br/>Asset<br/>Class</b> | <b>Line Item Accountable Personal Property<br/>Description<sup>1</sup></b>   | <b>Years</b> |
|----------------------------------|--|--------------|
| 11                               | Office furniture (including cabinets, lockers, couches), Office Machines (including typewriters, calculators, tape recorders, etc.), Misc. Office Equipment, Furnishings, Fixtures, and Labor-saving Devices. Excludes property classified as Automatic Data Processing Equipment. | 7            |
| 12                               | Passenger Vehicles, General Purpose, Leased and Owned.   | 5            |
| 13                               | Printing, Photographic, and Projection Equipment (including duplicating, photocopy, printing and bookbinding machines, micro-graphics production equipment, microfiche/microfilm reader/printers, televisions, cameras, projection, developing and finishing equipment).           | 13           |
| 17                               | Automatic Data Processing Equipment (including central processing units, input/output terminals, storage, and printing devices, ADP accessory equipment, and related special furniture).   | 5            |
| 20                               | Prototype and Experimental Equipment Used in Research and Development. Excludes Test Equipment.  | 7            |
| 21                               | Research and Development Test Equipment.   | 7            |
| 41                               | Special Purpose Vehicles (including trucks, tractors, trailers, forklifts, cranes, snowplows, and any vehicle specially equipped).   | 5            |
| 43                               | Shop Equipment, (including wood and metalworking machinery, industrial machinery, construction equipment, tool sets and kits, power hand tools, and related shop furniture).   | 7            |
| 45                               | Equipment Not Otherwise Classified.  | 7            |
| 46                               | Emergency Readiness Equipment (including civil defense equipment, security equipment and devices and all weapons/armaments).   | 7            |
| 47                               | Training Equipment (including all equipment types, that are specifically used for training purposes only).   | 7            |
| 62                               | Portable Test Equipment for Air Navigation & Air Traffic Control Facilities.   | 7            |
| 63                               | Rack Mounted Test Equipment for Air Navigation & Air Traffic Control Facilities.   | 7            |
| 64                               | Portable and Installed Communications Equipment, Excluding Air Navigation and Air Traffic Control Facilities (including items identified as working equipment). Excludes Communication Test Equipment.   | 10           |
| 81                               | Aircraft, Electrical and Mechanical Equipment (including accessory equipment not otherwise classified). Excludes Test Equipment.   | 20           |
| 82                               | Avionics Equipment (including communication and navigation equipment).   | 10           |
| 83                               | Aircraft Test Equipment, Portable and Installed.   | 7            |

<sup>1</sup> This table was developed using the IRS instructions for Form 4562, Depreciation and Amortization, in conjunction with FAA's Office of System Architecture & Investment Analysis

**Installed Facility Equipment and Other Personal Property Assets<sup>1</sup>**

| <b>Functional Area</b>                               | <b>Economic Service/Useful Life</b> |
|--|-------------------------------------|
| <b>Administrative Support Systems</b>                |                                     |
| FAA Developed Hardware                               | 20                                  |
| FAA Developed Software                               | 20                                  |
| Mainframe Computers                                  | 10                                  |
| Mini-Computers                                       | 10                                  |
| High-End Workstations                                | 10                                  |
| PC Workstations/OATS Hardware                        | 6                                   |
| Computer Operating System                            | 20                                  |
| Displays   | 20                                  |
| PC Workstation Application Software                  | 4                                   |
| <b>Communications</b>                                |                                     |
| General Purpose Telecomm. Equipment                  | 10                                  |
| Tower/TRACON Voice Switches                          | 10                                  |
| En Route Voice Switches                              | 20                                  |
| Air-Ground Radios                                    | 20                                  |
| Microwave Network                                    | 10                                  |
| <b>Weather</b>                                       |                                     |
| General Purpose Weather Sensors                      | 15                                  |
| Weather Radars <sup>2</sup>                          | 20                                  |
| Radar Transmitters                                   | 20                                  |
| Radar Receivers                                      | 20                                  |
| <b>Navigation/Landing</b>                            |                                     |
| Electronic Nav aids                                  | 20                                  |
| Visual Nav aids                                      | 20                                  |
| <b>Surveillance</b>                                  |                                     |
| Radars <sup>1</sup>                                  | 20                                  |
| Radar Transmitters                                   | 20                                  |
| Radar Receivers                                      | 20                                  |
| <b>Facilities</b>                                    |                                     |
| Facilities <sup>3</sup>                              | 40                                  |
| Support Equipment (e.g., chillers, heaters)          | 20                                  |
| <b>Mission support</b>                               |                                     |
| Aircraft   | 20                                  |
| <b>Administrative Support Systems User Equipment</b> |                                     |
| Commercial Aircraft Avionics                         | 10                                  |
| Military Aircraft Avionics                           | 10                                  |
| Business Aircraft Avionics                           | 10                                  |
| General Aviation, Low-end Aircraft Avionics          | 20                                  |

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<sup>1</sup> This table is used to identify asset classification lives for accounting record purposes. The useful lives assigned are the best available estimates for these groupings at this time.

<sup>2</sup> Generally this economic service/useful life refers only to the custom-built hardware portions (e.g., antenna, pedestal mount, etc.) of radar equipment. Other portions (e.g., transmitters, receivers) will be COTS-based and have shorter economic service/useful life.

<sup>3</sup> All FAA buildings and facilities (e.g., ARTCC, ATCT, TRACON, AFSS, etc.) are covered under real property.

**5-5. IMPROVEMENTS.** An improvement must extend the useful life of the original asset by at least 2 years or extend capacity. If the estimated life of the improvement is less than 2 years or if the cost is not at least \$25,000, then it will be expensed instead of capitalized. If an improvement does not extend useful life or increase capacity, then it will also be expensed, regardless of cost.

- a. The capitalization of an improvement commences when it is considered physically complete, and/or the asset has been placed back into service, or has been deemed substantially financially complete (whichever occurs first).
- b. The improvement is depreciated over its assigned estimated life, or the remaining useful life of the asset. See the footnote on page 5-5 for improvements to fully depreciated assets.
- c. An improvement is evaluated for capitalization as a separate project/task from the original asset that it improves. This allows the FAA to distinguish and track the improvement asset separately from the original asset, and identify the improvement's capitalized useful life.

**5-6. PROPERTY SUPPORT RECORDS.** Each region's electronic project materiel folders (dubbed DocMan) contain purchase orders, receiving reports, and other information supporting the valuation and capitalization of real property records in the FA module, in REMS (for real property), and in PPIMS (for personal property). Improvement files are established separately from the (parent) asset that was benefited.

**5-7. DEPRECIATION PROCEDURES.** The FA module's month end process will run the final depreciation each month and will create standard journal entries to post the depreciation expense. The FA module will post depreciation to GL account # 67106600, "Depreciation and Amortization Expense." The depreciation expense entries furnished to CAS are used in the calculation of user fees and cost of FAA services.



- a. AFM-320 will monitor the monthly reports and the depreciation process to look for anomalies and inconsistencies.
- b. When an asset taken out of service before expiration of its useful life, depreciation expense continues until it is physically disposed of. The asset's remaining book cost will be transferred to GL account # 17306010, "Building Not In-Use," and the related accumulated depreciation will be transferred to GL account # 17396010, "Accumulated Depreciation - Building Not In-Use" or 17406010, "Other Structure Not In-Use," and the related accumulated depreciation will be transferred to 17496010, "Accumulated Depreciation - Other Structure Not In-Use." The asset will remain in the FA module as capitalized property until an official change of possession takes place.
- c. The following transactions will be generated by the FA module to record the entries for the depreciation expense:

| Debit  | Credit  |
|--|---|
| GL account # 67106600 - Depreciation Expense |   |
|  | GL account # 17196000 - Accumulative Depreciation on Improvements to Land or                  |
|  | GL account # 17396000 - Accumulative Depreciation on Building, Improvements or Renovations or |
|  | GL account # 17496000 - Accumulated Depreciation On Others Structures & Facilities or         |
|  | GL account # 17596000 - Accumulated Depreciation On Equipment or                              |
|  | GL account # 17596020 - Accumulated Depreciation On Equipment - Aircraft or                   |
|  | GL account # 17596030 - Accumulated Depreciation On Facility Equipment or                     |
|  | GL account # 17596050 - Accumulated Depreciation On Furniture & Equipment or                  |
|  | GL account # 18196000 - Accumulated Depreciation on Assets Under Capital Lease or             |
|  | GL account # 18296000 - Accumulated Depreciation on Leasehold Improvements or                 |
|  | GL account # 18396000 - Accumulated. Depreciation On Information Tech. Software               |

**5-8. EXCESS PROPERTY.** Documentation evidencing reclassification of capitalized real and personal property from an “in-use” to an “excess” (not in service) status and applicable general ledger accounts is used as the basis for transferring the asset to a not-in-service status. The FA module uses the “transfer asset” function as the means to move the asset to the not in service/excess account. General ledger account entries would be:

a. For Real Property:

| <b>Asset Account</b>                    | <b>Debit (DR)</b> | <b>Credit (CR)</b> |
|---|-------------------|--------------------|
| Buildings Not In Use                    | 17306010          |                    |
| Buildings, Improvements and Renovations |                   | 17306000           |
| or                                      |                   |                    |
| Other Structures Not In Use             | 17406010          |                    |
| Other Structures & Facilities           |                   | 17406000           |

These entries transfer to the “Building and Other Structure Not In-Use” inventory accounts while retaining the asset as an inventory item. The accumulated depreciation transfers with the asset, as follows:

| <b>Asset Account</b>                                   | <b>Debit (DR)</b> | <b>Credit (CR)</b> |
|--|-------------------|--------------------|
| Accumulated Depreciation - Buildings                   | 17396000          |                    |
| Accumulated Depreciation - Buildings Not In Use        |                   | 17396010 or        |
| Accumulated Depreciation - Other Structures            | 17496000          |                    |
| Accumulated Depreciation - Other Structures Not In Use |                   | 17496010           |

b. For Personal Property:

| <b>Asset Account</b>          | <b>Debit (DR)</b> | <b>Credit (CR)</b> |
|-------------------------------|-------------------|--------------------|
| Equipment Not In Use          | 17506010          |                    |
| Equipment - Personal Property |                   | 17506000           |

These entries will generate the proper general ledger transfer and move the appropriate amount of cost and accumulated depreciation, as follows:

| <b>Asset Account</b>                            | <b>Debit (DR)</b> | <b>Credit (CR)</b> |
|---|-------------------|--------------------|
| Accumulated Depreciation - Personal Property    | 17596000          |                    |
| Accumulated Depreciation - Equipment Not In Use |                   | 17596010           |

c. Excess property may be placed back into service. In such cases, the asset will be given a new identified book value and life. The asset will be capitalized if the value is determined to be \$25,000 or more and the estimated life is at least 2 years; the asset will be expensed if it does not meet this criteria.

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